

Message Text

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ORIGIN EUR-12

INFO OCT-01 DODE-00 PM-05 NSCE-00 ISO-00 CIAE-00
INR-10 L-03 ACDA-12 NSAE-00 PA-01 SS-15 SP-02
TRSE-00 SSO-00 ICAE-00 INRE-00 OMB-01 /062 R

DRAFTED BY OASD/ISA:JREED:MEM
APPROVED BY EUR'RPM:CHTHOMAS
EUR/RPM:JAFROEBE
PM/SA:MLIDY
ASD/ISA:DMCGIFFERT
PM/ISP:JDOBRIN
NSC:JTHOMSON

-----010316 290015Z /14

O R 282314Z SEP 78
FM SECSTATE WASHDC
TO ALL NATO CAPITALS IMMEDIATE
INFO USNMR SHAPE BELGIUM
USCINCEUR VAIHINGEN GE
USLO SACLANT NORFOLK VA
CINCLANT NORFOLK VA

C O N F I D E N T I A L STATE 247670

E.O. 11652:GDS

TAGS: NATO, MPOL, ECON

SUBJECT:DPQ-78: GUIDANCE ON US DEFENSE EXPENDITURES

REFS: A. USNATO 08212, DTG 081434Z SEP 78; B. STATE 198638,
DTG 071832Z AUG 78; C. USNATO 01761, DTG 211643Z FEB 78

1. THE FINANCIAL/ECONOMIC DATA IN ITEM V OF THE US REPLY
TO DPQ-78 MAY ELICIT CRITICAL COMMENTS FROM ALLIES AND
INTERNATIONAL STAFF ON THREE POINTS:

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-- US OUTLAYS FOR FY 78 SHOW NOT A THREE PERCENT REAL
INCREASE OVER FY 77, BUT RATHER LESS THAN A ONE PERCENT
INCREASE.

-- US DEFENSE EXPENDITURES FOR FY 78 ARE EXPECTED TO
BE LOWER THAN WE REPORTED TO NATO EARLY THIS YEAR.

----- THE REDUCTION OF FY 78 DEFENSE EXPENDITURES IN EFFECT MAKES IT EASIER FOR THE US TO SHOW AN FY 79 THREE PERCENT REAL INCREASE.

TO COUNTER ANY MISCONCEPTIONS THAT MIGHT ARISE, USNATO SHOULD TAKE APPROPRIATE OPPORTUNITIES BOTH TO KEEP THE RECORD STRAIGHT AND TO EMPHASIZE THE FULL RANGE OF ACTIONS

THE US IS TAKING TO STRENGTHEN THE ALLIANCE. EMBASSIES MAY ALSO USE GUIDANCE BELOW AS APPROPRIATE TO RESPOND TO QUERIES FROM HOST OFFICIALS.

2. DPQ RESPONSE CONTAINS US ESTIMATES FOR DEFENSE OUTLAYS FOR FY 78-83. THESE ARE BASED ON LATEST PUBLIC ESTIMATES RELEASED IN JULY. DUE TO LOWER THAN EXPECTED DOD SPENDING, THE DATA IN THE DPQ REFLECTS ANNUAL DOD OUTLAYS FOR FY 78 THROUGH 80 SOME 3 BILLION DOLLARS LOWER THAN MISSION ESTIMATES (REF C), WHICH WERE REPORTED TO NATO IN COURSE OF FORCE GOAL REVIEW. DPQ-78 ESTIMATES FOLLOW (\$ BILLIONS -- CURRENT PRICES):

FY 77 FY 78 FY 79 FY 80 FY 81 FY 82 FY 83

DOD OUT-

LAYS 95.7 102.0 112.0 122.7 134.0 147.2 160.8

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US DEFENSE

OUTLAYS

(NATO DEF)98.0 105.8 116.6 127.9 139.4 152.7 166.0

UNEXPENDED

BALANCE

(CARRIED

FORWARD TO

FOLLOWING 79.2 95.4 112.0 -- -- -- --

YEARS)

3. DOD SPENDING IN AUGUST RAN AHEAD OF THE PROJECTIONS, AND ACTUAL FY 78 DOD OUTLAYS COULD EXCEED 103 BILLION.

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4. THE FOLLOWING TALKING POINTS ARE PROVIDED FOR MISSION (AND EMBASSIES, AS APPROPRIATE) TO DRAW ON IN DISCUSSIONS WITH ALLIES AND IS. DEFAD OR DCM SHOULD PRIVATELY DISCUSS WITH ASYG MUMFORD SO THAT HE LEARNS OF THE SITUATION FIRST FROM US TO LESSEN ANY LIKELY NEGATIVE REACTION. THE EMPHASIS OF OUR PRESENTATION

SHOULD BE ON OUR OWN DETERMINATION -- AND WE HOPE THAT
OF OUR ALLIES -- TO ACHIEVE THE 3 PERCENT GOAL DURING
THE FY 79-83 PERIOD TO WHICH IT REALLY APPLIES.
WHILE WE WANT THE FACTS TO BE CLEARLY STATED, WE WANT
TO KEEP THE FOCUS
ON ALLIANCE PERFORMANCE DURING THE TARGET PERIOD
FY 79-83, RATHER THAN ON OUR DEFICIENCY IN FY 78.
OUR ALLIES MAY NOT IN FACT TURN OUT TO BE AS ANXIOUS
OVER OUR SHORTFALL AS WE ARE, AND WE WOULD NOT WISH TO
EXCITE SUCH ANXIETIES BY BELABORING THE POINT.

-- OUR LATEST DATA FOR FY 78 SHOWS A DROP IN REAL
US DEFENSE EXPENDITURES FROM ESTIMATES REPORTED IN
CONNECTION WITH LAST SPRING'S FORCE GOAL EXERCISE. OUR
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LATEST DATA REFLECT REAL OUTLAY LEVELS FOR FY 78 THAT ARE
ONLY 0.7 PERCENT ABOVE FY 77.

-- THE ADMINISTRATION'S FY 78 BUDGET REQUEST WAS
PREPARED PRIOR TO MINISTERIAL ADOPTION OF THE 3 PERCENT
GOAL AND IS NOT COVERED BY THE GOAL. HOWEVER, WE HAD
HOPED TO ACHIEVE HIGHER GROWTH. ALTHOUGH WE ARE DIS-
APPOINTED OVER OUR FY 78 OUTLAY PERFORMANCE, THE US IS
IN NO WAY LESS COMMITTED TO ACHIEVING THE THREE PERCENT
GOAL FOR FY 79-83 AS ESTABLISHED BY THE 1977 MINISTERIAL
GUIDANCE.

-- THE FY 78 DROP IN DEFENSE EXPENDITURES RESULTED
FROM OUR INABILITY TO SPEND PREVIOUSLY APPROPRIATED
FUNDS AT THE EXPECTED RATE. THE CAUSE WAS ADMINISTRATIVE
PROBLEMS -- PROGRAM CHANGES; CONTRACTUAL DISPUTES,
PARTICULARLY IN SHIP CONSTRUCTION; AND THE LIMIT ON
INDUSTRIAL CAPACITY FOR PRODUCTION OF TANKS AND LONG
LEAD COMPONENTS FOR AIRCRAFT. WE ARE WORKING TO OVERCOME
THESE PROBLEMS, AND HAVE BEEN ABLE TO INCREASE SPENDING
RATES RECENTLY SUCH THAT FINAL FY 78 SPENDING FIGURES
COULD BE AS MUCH AS \$1 BILLION HIGHER THAN SHOWN IN
THE DPQ. THE UNANTICIPATED SPENDING SLOW-DOWN IN NO WAY
REPRESENTS EITHER A CUT IN OUR DEFENSE PROGRAMS, OR A
POLICY DECISION TO HOLD DOWN DEFENSE SPENDING. (IF
ASKED): THE US HAS NOT ARTIFICIALLY HELD DOWN FY 78
DEFENSE EXPENDITURES IN ORDER TO MAKE IT EASIER TO LOOK
GOOD IN FY 79 AND BEYOND -- TO PROVIDE A LOWER BASE FROM
WHICH TO COMPUTE THE THREE PERCENT THE ALLIANCE HAS
AGREED TO BEGINNING IN FY 79.

-- DEFENSE FUNDS NOT SPENT AT THE PLANNED RATE ARE
NOT "LOST" SINCE THEY ARE CARRIED OVER TO SUBSEQUENT
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YEARS. PLANNED IMPROVEMENTS ARE NOT AFFECTED SINCE VIRTUALLY ALL APPROPRIATIONS NOT SPENT IN A GIVEN FISCAL YEAR ARE AVAILABLE FOR EXPENDITURES IN SUBSEQUENT YEARS.

-- US PLANNED DEFENSE EXPENDITURES FOR THE FY 79-83 PERIOD DO MEET THE NATO THREE PERCENT GOAL. BASED ON CURRENT ESTIMATES OF INFLATION CONTAINED IN THE DPQ, OUR ESTIMATED RATES OF REAL INCREASE (PERCENT) FOR THESE YEARS ARE: FY 79 FY 80 FY 81 FY 82 FY 83
3.8 3.5 3.5 4.1 3.8

-- MOST IMPORTANTLY, WE ARE TAKING SIGNIFICANT STEPS TO UPGRADE OUR NATO-ORIENTED CAPABILITIES THROUGH THE

LTDP AND ELSEWHERE, AS THE ALLIES ARE AWARE. THE US DETERMINATION TO BEEF UP NATO'S DEFENSE IS MANIFESTED IN:

O OUR WILLINGNESS TO INCREASE OUR CONTRIBUTIONS TO NATO, WHICH ARE ALREADY SOME SIXTY PERCENT OF NATO'S TOTAL DEFENSE SPENDING.

O OUR PURSUIT OF INCREASED CAPABILITIES FOR OUR ARMED FORCES THROUGH BETTER MANAGEMENT, INCREASED STANDARDIZATION, AND MORE SELECTIVE APPLICATION OF AVAILABLE FUNDS.

O THE PRESIDENT'S VETO OF THE DEFENSE BILL WHICH IS NOT A CUT IN DEFENSE BUT AN ATTEMPT TO RESTORE FUNDS DIVERTED FROM HIGH PRIORITY NATO PROJECTS TO THE NUCLEAR CARRIER. IF CONGRESS DOES NOT RESTORE THE ORIGINALLY REQUESTED BUDGET LEVEL IN THE CURRENT BILL, THE ADMINISTRATION PLANS TO SEEK RESTITUTION OF THOSE FUNDS.

5. REFTEL B CONTAINS RELEASE AUTHORITY FOR US REPLY TO DPQ 78. YOU ARE AUTHORIZED TO RELEASE THE AMMO ANNEXES AND FINANCIAL/ECONOMIC SECTION AT THIS TIME.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY EXPENDITURES, FINANCE
Control Number: n/a
Copy: SINGLE
Draft Date: 28 sep 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE247670
Document Source: CORE
Document Unique ID: 00
Drafter: JREED:MEM
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780397-0070
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978099/aaaaahfe.tel
Line Count: 219
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 13afde55-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 USNATO 8212, 78 STATE 198638
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 02 aug 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1507827
Secure: OPEN
Status: NATIVE
Subject: DPQ-78: GUIDANCE ON US DEFENSE EXPENDITURES
TAGS: MPOL, ECON, US, NATO
To: NATO POSTS
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/13afde55-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014